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U.S. May Yet Lose Billions on Oil, Gas

By THE ASSOCIATED PRESS

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WASHINGTON (AP) -- Despite record profits, oil and gas producers may avoid billions of dollars in royalty payments to the government because of a decade-old law designed to spur production when energy prices are low.

The Interior Department estimates that as much as $66 billion worth of oil and natural gas taken from the deep waters of the Gulf of Mexico between now and 2011 will be exempt from government royalty payments.

That could amount to the government losing an estimated $7 billion to $9.5 billion based on anticipated production and current price projections for oil and gas, according to an analysis in the department's five-year budget plan.

The analysis assumes oil prices will hover around $50 a barrel and natural gas in the $8 to $9 per thousand cubic feet range between now and 2012.

Johnnie Burton, head of the department's Minerals Management Service, said Tuesday the actual revenue losses would be subject to many variables, but that more than $7 billion was "in the range" of probability.

The industry windfall was first reported by The New York Times.

The disclosure prompted calls in Congress on Tuesday to curtail or end the royalty relief that lawmakers made available in 1995.

"The American people are getting stood up and hung out to dry by an administration that favors sweetheart deals with Big Oil," said Rep. Ed Markey, D-Mass., one of six Democrats who said they planned to introduce legislation to end the royalty relief.

Sen. John Kerry, D-Mass., said he planned to introduce a resolution putting the Senate on record against the royalty break. "No one in their right mind think oil companies turning record high profits and squeezing Americans at the pump should now get to keep $7 billion," Kerry said.

Although Kerry was among those who voted for the royalty relief in 1995, his spokeswoman said that the relief is no longer needed when oil prices are near $60 a barrel.

Oil cost an average of $18.43 a barrel in 1995, according to the Energy Department. At the time there was a widespread view that incentives were needed to spur production in the deep-water Gulf region.

Like Markey, Rep. George Miller, D-Calif., opposed the 1995 "royalty holiday" for oil companies.

"It's one of the most egregious giveaways of taxpayer money in our history and it can and should be stopped," said Miller.

Republicans also have expressed second thoughts about the royalty relief. Rep. Richard Pombo, R-Calif., chairman of the House Resources Committee, told the Times: "I don't think there's a single member of Congress who thinks you should get royalty relief at $70 a barrel."

Oil prices reached that level briefly in recent months.

The 1995 law includes a provision that if oil and natural gas prices pass a certain level -- $34.71 a barrel for oil and $4.34 per thousand cubic feet for gas -- royalties will be imposed even in leases covered by the royalty relief.

According to the Interior Department, those annual thresholds were exceeded repeatedly over the last five years for natural gas and in the last two years for oil.

Last December, the department sent letters to the companies demanding royalty payments, and $425 million was collected from 38 of 41 companies, according to Walter Cruickshank, deputy director of the Minerals Management Service.

But Cruickshank said nine companies have challenged the legality of the price threshold on leases issued between 1996 and 2000. Kerr-McGee, a major gas producer, has said it will fight the issue in court.

Cruickshank, in a Feb. 9 department memo, said that the department needs to "carefully consider how to approach this issue" because an adverse court ruling could "place more than $500 million of past royalties and an undetermined amount of future royalties at risk."

Even with the price threshold, millions of barrels of oil and billions of cubic feet of natural gas will not be subject to royalty payments.

The 1995 law exempted leases issued in 1998 and 1999 from the price threshold, accounting for about two-thirds of the royalty-free gas and millions of barrels of oil.

Last year an estimated 247 billion cubic feet of natural gas and 16.5 million barrels of oil were taken from the Gulf without royalties having been paid either because they were exempt from the threshold or because "companies have chosen not to pay even though the (price) thresholds have been exceeded," Cruickshank wrote in another memo.